



Third Quarter Report (three and nine months ended September 30, 2002)

Budapest, November 14, 2002

Dear Shareholders,

Graphisoft's financial results for the third quarter of 2002 are below expectations. Revenues of EUR 4.4 million in the 3-month period and EUR 17.7 million in the 9-month period, ended September 30, 2002, are lower than the revenues of the same periods of 2001 by 33.2% and 16.6%, respectively. (It should be noted that the Company released a new version of its principal product in Q2 of 2001 and that the comparable 2002 release did not occur until November 7 of this year.)

Key figures*	3 months ended September 30		change % 02/01	9 months ended September 30		change % 02/01
	2002	2001		2002	2001	
Revenues	4,438	6,646	(33.2)	17,666	21,180	(16.6)
Gross profit	3,625	5,816	(37.7)	14,982	18,172	(17.6)
Operating expenses, before impairment charge	5,961	6,270	(4.9)	17,263	18,145	(4.9)
Impairment charge	-	3,135	n.a.	-	3,135	n.a.
Operating loss	(2,336)	(3,589)	n.a.	(2,281)	(3,108)	n.a.
EBITDA**	(1,867)	170	n.a.	(905)	1,908	n.a.
Net loss	(1,937)	(3,085)	n.a.	(2,693)	(3,026)	n.a.
Loss per share	(0.19)	(0.31)	n.a.	(0.27)	(0.30)	n.a.

* All amounts are in TEUR, loss per share is in EUR

** EBITDA: Earnings Before Interest, Tax, Depreciation, Amortization (and Impairment Charge)

*** n.a.: the exact calculation is ambiguous

The Company's underperformance can be attributed to two main factors:

- The company extended the testing period for the latest release of ArchiCAD. The resulting launch delay will push some first license and upgrade revenues that were expected in Q3 into Q4 and early 2003.
- The continuing softness in demand in some of Graphisoft's major markets and delayed investments due to the recession in Germany's building industry have had a significant impact on Q3 results.

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Although the overall performance of the Company is behind management's expectations, there are positive results that are worth noting:

- Revenues in North America increased by 12.7% for the nine months.
- Operating expenses (excluding the impairment charge in 2001) have been reduced by 4.9%. Accounts receivable Days Sales Outstanding (DSO) has been reduced by 41 days since the start of the year.
- The re-structuring of the Company is proceeding. Management expects the changes instituted in the second half of 2002 to have a significant impact on operating results in 2003.
- The latest version of ArchiCAD was launched on November 7, 2002. Management anticipates that the release of ArchiCAD 8 will help regenerate revenue growth. The impact is expected to be seen through the first half of 2003 as localized (translated) versions are released to their respective markets throughout Q4 this year and Q1 of 2003.

The economic environment is a challenge for the entire AEC CAD industry. Graphisoft management continues to review its markets and operations and will take appropriate measures to adjust to these conditions as needed.

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Consolidated Balance Sheets

(All amounts in TEUR)

	ended September 30, 2002 (unaudited)	Period ended June 30, 2002 (unaudited)	ended December 31, 2001 (audited)
ASSETS			
<u>Current Assets</u>			
Cash and cash equivalents	2,719	2,539	3,474
Marketable securities.....	10,092	11,075	8,354
Accounts receivable, net	4,949	6,204	8,964
Inventories	721	758	1,107
Other current assets.....	3,043	2,020	1,700
Total current assets	21,524	22,596	23,599
<u>Long-term assets</u>			
Property, plant and equipment, net	16,256	16,247	16,490
Intangible assets, net	2,595	2,742	3,444
Investments and other assets.....	1,347	1,347	852
Total long-term assets.....	20,198	20,336	20,786
Assets total.....	41,722	<u>42,932</u>	<u>44,385</u>
LIABILITIES AND SHAREHOLDERS EQUITY			
<u>Current liabilities</u>			
Bank overdrafts	65	66	32
Accounts payable and accrued expenses	2,869	2,580	3,517
Deferred income	735	552	755
Total current liabilities.....	3,669	3,198	4,304
Minority interest	11	8	7
<u>Shareholders' equity</u>			
Share capital, 0.05 NLG (0.023 EUR) nominal value, 40,000,000 authorized shares, 30,000,000 common shares, 10,000,000 preference shares, 10,631,674 outstanding as of December 31, 2001, June 30 and September 30, 2002	243	243	243
Additional paid in capital	20,021	20,021	20,021
Treasury stock, at cost (598,910 shares in portfolio as of December 31, 2001, June 30 and September 30, 2002)	(5,631)	(5,631)	(5,631)
Retained earnings	28,335	30,272	31,028
Accumulated other comprehensive loss	(4,926)	(5,179)	(5,587)
Total shareholders' equity.....	38,042	39,726	40,074
Liabilities total.....	41,722	<u>42,932</u>	<u>44,385</u>

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Unaudited Consolidated Statements of Operations

(All amounts in TEUR. Per share figures are in EUR)

	3 months ended		9 months ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Revenues, net	4,438	6,646	17,666	21,180
Cost of revenues	813	830	2,684	3,008
GROSS PROFIT.....	3,625	5,816	14,982	18,172
Operating expenses				
Sales and marketing expenses	2,532	3,261	7,791	8,622
Research and development expenses	1,376	1,167	3,848	3,624
General and administrative expenses	1,584	1,218	4,248	4,018
Depreciation and amortization.....	469	480	1,376	1,423
Amortization of goodwill	-	144	-	458
Impairment charge	-	3,135	-	3,135
Total Operating Expenses.....	5,961	9,405	17,263	21,280
OPERATING LOSS	(2,336)	(3,589)	(2,281)	(3,108)
Interest and other income, net.....	203	78	555	304
Foreign currency transaction loss, net	175	325	(383)	82
LOSS BEFORE INCOME TAXES.....	(1,958)	(3,186)	(2,109)	(2,722)
Provision for income taxes	(24)	(102)	227	303
NET LOSS BEFORE MINORITY INTEREST AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(1,934)	(3,084)	(2,336)	(3,025)
Minority interest income	(3)	(1)	(5)	(1)
NET LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(1,937)	(3,085)	(2,341)	(3,026)
Cumulative effect of change in accounting principle	-	-	(352)	-
NET LOSS	(1,937)	(3,085)	(2,693)	(3,026)
BASIC AND DILUTED LOSS PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (EUR/Share)	(0.19)	(0.31)	(0.23)	(0.30)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (EUR/Share)	0.00	0.00	(0.04)	0.00
LOSS PER SHARE (EUR/Share)	(0.19)	(0.31)	(0.27)	(0.30)

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Statement of Changes in Consolidated Shareholders' Equity

(All amounts in thousand EUR; December 31, 2001 is audited, September 30, 2002 is unaudited)

	Share capital	Share premium	Treasury stock	Retained earnings	Other com- prehensive income	Share- holders' Equity
As of December 31, 2001: 10,631,674 shares issued 598,910 treasury stocks in portfolio	243	20,021	(5,631)	31,028	(5,587)	40,074
Unrealized gain on available for sale securities .	-	-	-	-	27	27
Translation adjustment.....	-	-	-	-	634	634
Net loss.....	-	-	-	(2,693)	-	(2,693)
As of September 30, 2002: 10,631,674 shares issued 598,910 treasury stocks in portfolio	<u>243</u>	<u>20,021</u>	<u>(5,631)</u>	<u>28,335</u>	<u>(4,926)</u>	<u>38,042</u>

Unaudited Consolidated Statements of Cash Flow

(All amounts in thousand EUR)

	9 Months ended September 30, 2002	9 Months ended September 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(2,693)	(3,026)
Adjustments to reconcile operating income with net cash provided by operating activities:		
Depreciation and amortization.....	1,683	1,881
Impairment charge	352	3,135
Revaluation of trading securities.....	(89)	141
Provision for doubtful accounts.....	466	-
Deferred tax provision.....	90	-
Non-cash compensation	17	137
	(174)	2,268
Changes in assets and liabilities:		
Accounts receivable	3,549	462
Other assets	(1,450)	(753)
Inventories	386	19
Proceeds from sale of marketable securities - trading, net ...	-	-
Accounts payable and accrued expenses	(611)	36
Deferred income.....	(20)	(251)
Current year translation adjustment	426	781
Cash provided by operating activities	2,106	2,562
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in intangible assets	(33)	(315)
Increase in marketable securities - available for sale and held to maturity, net.....	(1,649)	(561)
Increase in tangible fixed assets.....	(867)	(1,645)
Increase in long term investments.....	(495)	(428)
Proceeds from disposals of tangible fixed assets.....	183	69
Purchase of treasury shares.....	-	(1,348)
Net cash used in investing activities.....	(2,861)	(4,228)
Net decrease in cash and cash equivalents	(755)	(1,666)
Cash and cash equivalents at the beginning of the period	3,474	4,978
Cash and cash equivalents at the end of the period.....	<u>2,719</u>	<u>3,312</u>

Results of operations three and nine months ended September 30, 2002

Revenues

The Company's revenues declined by 16.6% from EUR 21.2 million to EUR 17.7 million in the first nine months of the year, and by 33% from EUR 6.6 million to EUR 4.4 million in the third quarter of 2002, as compared to the same periods in 2001.

Revenues by region	3 months ended			9 months ended		
	09/30/02	09/30/01	% of 02/01	09/30/02	09/30/01	% of 02/01
Europe	2,702	4,330	(37.6)	10,323	13,319	(22.5)
North America	912	1,126	(19.0)	3,915	3,475	12.7
Asia/Pacific	684	1,024	(33.2)	3,022	3,761	(19.7)
Rest of the World	140	166	(15.7)	406	625	(35.0)
Total Revenues	4,438	6,646	(33.2)	17,666	21,180	(16.6)

(All amounts in thousand EUR)

Revenues by product line	3 months ended			9 months ended		
	09/30/02	09/30/01	% of 02/01	09/30/02	09/30/01	% of 02/01
ArchiCAD and complementary SW revenue	3,067	5,230	(41.4)	12,559	16,724	(24.9)
Facility management	741	652	13.7	2,412	1,756	37.4
HVAC/E *	155	246	(37.0)	496	641	(22.6)
GDL object tools	73	14	421.4	325	33	884.8
Other revenues	402	504	(20.2)	1,874	2,026	(7.5)
Total Revenues	4,438	6,646	(33.2)	17,666	21,180	(16.6)

(All amounts in thousand EUR)

* HVAC/E stands for **H**eating, **V**entilation, **A**ir **C**onditioning and **E**lectric design

This decline was due mainly to lower sales in Europe (EUR -3.0 M), in particular in Germany, the UK, and Switzerland, and Asia/Pacific (EUR -0.7 M), primarily in Japan. The decline was partly offset by increased sales in North America (EUR 0.4 M) in the first nine months of the year.

As Graphisoft's major target market, the AEC (architecture/engineering/construction) segment is very sensitive to the macroeconomic fluctuation in the major economies their recent slowdown has adversely affected the Company's results.

Sales in Q3 were also impacted negatively by the fact that the new version of ArchiCAD was not introduced. However we confidently expect the availability of this new technology to have a positive impact on our future results.

The new version went into production in November and Graphisoft has started to roll out the localized versions. This will help to stimulate additional sales of ArchiCAD upgrades to existing users, and new (additional) licenses to new and existing users.

In product terms, the decrease in license revenues was mainly due to lower revenues from ArchiCAD and related products (EUR -4.2 M); these were partly offset by significant growth in other product areas, such as facility management and GDL. In addition, Graphisoft realized more revenues through the provision of professional services, such as consulting.

Expense Development

In the first nine months of the year the Company successfully executed its cost savings plan. As compared to 2001, operating expenses decreased by EUR 0.9 million: 50 % of the savings is attributable to Graphisoft's streamlined operations, the other half is related to the effect of a change in accounting principle (readers may find more details in 'Significant Accounting Policies'). Exchange rate fluctuations had a negative 258 TEUR impact on the Group's expenses. Excluding this effect, savings would have reached EUR 0.7 million.

Cost of Revenues, Gross Profit

Cost of revenues decreased by EUR 0.3 million in the first three quarters of 2002. The decrease is to a large extent related to a fall in sales. The cut in production costs, which in itself would increase the gross margin, was partly offset with higher amortization expenses, and in the third quarter the pre-release inventory clean-up also adversely affected the gross margin. The extremely low sales in summer caused gross profit to diminish by EUR 3.2 million as compared to the same nine month period of 2001.

Operating Expenses

At EUR 17.3 million, operating expenses were in line with the budget and were by 4.9% less than they had been in 2001. Savings in sales and marketing expenditures (EUR 0.8 million) were partly offset by an increase in software development and administration expenditures (EUR 0.2 million each). Effective, January 1, 2002 the Company no longer amortizes goodwill, which resulted in an additional favorable variance (EUR 0.46 million).

Sales and Marketing

Though sales and marketing expenses decreased in the nine-month period ended September 30, 2002, by EUR 0.8 million the Company made a significant investment in personnel, including the hiring of two new vice presidents for sales and for strategic marketing. In connection with these changes the Group has begun to improve the efficiency of its marketing activities and introduced new tools and initiatives in sales. On the other hand, spending on traditional areas, such as tradeshows, ads and travel has lessened. Headcount in sales and marketing department was 105 as of September 30, 5 more than on June 30, 2002.

Research and Development

Intensive testing and additional resources needed in the final phase of the development of the new ArchiCAD version (our flagship product) pushed R&D expenses up in the third quarter. In this period the Company spent EUR 0.2 million more than in 2001.

General and Administrative

General and administrative expenses, primarily due to increased lawyers' and listing fees, increased in the third quarter of the year. In comparison to the previous year, G&A costs increased by 5.7% and were EUR 4.25 million in the first nine months of 2002.

Operating Loss, EBITDA

As a consequence of revenue shortfall in the third quarter, Graphisoft generated an operating loss of EUR 2.3 million, both in the three and nine months ending September, 2002. While the Company had a loss in these periods of 2001, too, that loss was primarily related to an impairment charge; this year the loss is purely operational by its nature. EBITDA, at EUR (0.9) million for the January through September period and at EUR (1.9) million for the third quarter, also turned negative.

Interest, Other Income/Expense and Foreign Exchange Gain/Loss, net

The Group earned EUR 0.66 million interest until September 30 this year (as compared to EUR 0.45 million in 2001). The positive change is attributable to more favorable market conditions in jurisdictions in which Graphisoft has financial investments. Other income/expense, net amounted to EUR (0.1) million. Benefiting from fluctuations of foreign currency exchange rates, the Company had a foreign exchange gain (EUR 0.175 million) in the third quarter of 2002, such gain has slightly offset the foreign exchange loss of the entire nine month period. Graphisoft's loss before income taxes was EUR 2.1 million as of September 30, 2002.

Net Loss and Loss Per Share Before the Cumulative Effect of Change in Accounting Principle

After the deduction of EUR 0.23 million for income taxes the Group reports EUR 2.3 million net loss and EUR 0.23 loss per share before the cumulative effect of change in accounting principle.

The following table sets forth the computation of shares used in the calculation of earnings (loss) per share:

	9 months ended September 30		3 months ended September 30	
	2002	2001	2002	2001
Shares for basic computation	10,032,764	10,144,002	10,032,764	10,032,764
Stock options (treasury stock method)	-	9,593	-	-
Shares for diluted computation	10,032,764	10,153,594	10,032,764	10,032,764

Effect of Change in Accounting Principles

As a result of a change in accounting principles, a EUR 352 thousand impairment loss was reported and disclosed as "cumulative effect of change in accounting principle," and an additional EUR 0.04 per share loss adversely affected the Company's EPS in the nine-month period.

Asset type	Length of life	N.B.V. as of 01/01/2002	Planned amortization expense in 2002	Impairment charge in 2002
Acquired technology	Indefinite	2,094	-	352
Acquired technology	Finite	832	337	-
Purchased and developed software	Finite	450	221	-
Total		3,376	558	352

Liquidity and capital resources

The aggregate amount of cash and marketable securities, the most liquid assets of the Company, were EUR 12.8 million, as of balance sheet date. This is EUR 1.0 million higher, than it was as of December 31, 2001 and EUR 0.8 million lower than at June 30, 2002, respectively.

Accounts receivable at EUR 4.95 million are substantially less on September 30, than they were at the beginning of 2002 (EUR 8.96 million). Days of Sales Outstanding (DSO) decreased accordingly, to 70 days at quarter's end. A fall in inventories of nearly 35% is the result of a general improvement in the Company's logistics, albeit a pre-release inventory clean-up also contributed to the achievement.

The Group's working capital, as a result of low sales level, has decreased by EUR 1.5 million. However, at EUR 17.8 million it still provides a solid base for accomplishing the Company's goals.

Staff

Following the corporate reorganization begun in the first quarter of the year, the Company's staff increased by 7 vs. June 30, 2002, as follows: Research and Development (-1), Sales and Marketing (5) and General and Administrative (3).

	September 30, 2002	June 30, 2002	March 31, 2002	December 31, 2001	September 30, 2001
Sales and Marketing	105	100	98	103	98
Research and Development	132	133	129	126	130
General and Administrative	69	66	65	72	74
Employees Total	306	299	292	301	302

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Options

The following table sets forth the changes in the options of Graphisoft N.V.'s Incentive and Non-statutory Stock Option Plan from December 31, 2001 through September 30, 2002.

	Available for grant	Options outstanding	Options vested	Already exercised	Weighted average price
Balance as of 12/31/2001	691,638	659,715	421,565	148,647	EUR 9.14
Options approved by AGM* 04/29/2002	500,000	-	-	-	-
Options granted 05/28/2002	(300,000)	300,000	15,000	-	EUR 5.00
Options granted 06/28/2002	(542,450)	542,450	369,700	-	EUR 5.00
Options cancelled	163,185	(163,185)	(130,175)	-	EUR 12.32
Options vesting in the period	-	-	62,700	-	EUR 10.08
Balance as of 09/30/2002	512,373	1,338,980	738,790	148,647	EUR 6.15

* AGM: Annual General Meeting

The Company has adopted the disclosure provisions of FASB Statement 123, but opted to remain under the expense recognition provisions of APB Opinion No. 25, in accounting for options granted to employees under Stock Option Plans.

Shareholders' structure

The decrease in the "Other managers and employees" and the increase in the "Free float" category is a consequence of share selling in June and July, 2002, by Tamás Hajas, former board member.

	September 30, 2002		June 30, 2002	
	% of ownership	Number of shares	% of ownership	Number of shares
Board of Directors				
Gábor Bojár	24.58%	2,613,474	24.58%	2,613,474
Laurence Orbach	0.08%	8,250	0.08%	8,250
Esther Dyson	0.0%	-	0.0%	-
Victor Leventhal	0.0%	-	0.0%	-
Kazumichi Shimamoto	0.0%	-	0.0%	-
Chief Executive Officer				
Ray Small	0.0%	-	0.0%	-
Executive Committee				
Péter Hornung	4.85%	515,426	4.85%	515,426
Gábor Kazár	2.55%	271,475	2.55%	271,475
Johannes Reischböck	0.75%	80,000	0.75%	80,000
Sándor Bihari	0.0%	-	0.0%	-
Other managers and employees	25.33%	2,693,213	25.40%	2,699,413
Treasury	5.63%	598,910	5.63%	598,910
Free float	36.22%	3,850,926	36.16%	3,844,726
Total	100.0%	10,631,674	100.0%	10,631,674

Share options of members of the Board of Directors, Executive Committee and Chief Executive Officer

	September 30, 2002	December 31, 2001	September 30, 2001
Board of Directors			
Gábor Bojár	10,000	-	14,700
Laurence Orbach	10,000	-	10,000
Esther Dyson	20,000	10,000	10,000
Victor Leventhal	10,000	-	10,000
Kazumichi Shimamoto	10,000	-	10,000
Chief Executive Officer			
Ray Small	300,000	-	-
Executive Committee			
Sándor Bihari	46,000	71,000	26,000
Péter Hornung	15,000	-	15,000
Gábor Kazár	15,000	-	15,000
Johannes Reischböck	113,741	199,741	113,741

Subsequent events

Gábor Kazár, an executive shareholder of Graphisoft and Vice President of Sales and Marketing, left the Company on October 15, 2002. His duties were taken over by Stewart Oldroyd (Vice President of Worldwide Sales) and Paul Cheng (Vice President of Worldwide Marketing).

Gábor Bojár, Chairman of Graphisoft N.V., bought 44,530 Graphisoft shares between October 15 and 16, 2002. Following the transaction Mr. Bojár owns 2,658,004 Graphisoft shares and has an influence in the Company that exceeds 25%.

As of October 30, 2002, 10,000 ordinary shares from the Company's treasury stock portfolio have been granted to Mr. Victor Leventhal, member of the Board of Graphisoft N.V. As a result of the grant, Mr. Leventhal owns a total of 10,000 Graphisoft N.V. shares.

Significant accounting policies

Basis of consolidation

The financial statements presented consist of the accounts of Graphisoft N.V. consolidated with the following subsidiaries:

Graphisoft R&D Rt. (Hungary)	90.21%
Graphisoft Deutschland GmbH	100.00%
Graphisoft U.S. Inc.	100.00%
Graphisoft Japan K.K.	100.00%
Graphisoft U.K.	100.00%
Graphisoft CAD Studio (Hungary)	92.00%
ArchiCAD Espana	100.00%
Graphisoft Brazil	90.00%
CADWorks Inc. [Drawbase] (U.S.)	100.00%
GDL Technology Services Ltd. (Hungary)	100.00%

The consolidated financial statements have been prepared from the statutory accounting records, and are presented in accordance with generally accepted accounting principles in the United States ("US GAAP").

Currency translation

The functional currency of each of the Group's operating entities is the local currency of the jurisdiction in which the entity operates. The consolidated financial statements of the Group are prepared using EUR as a reporting currency. Operating entities' financial statements are translated into EUR using the all-current method. Under this method, statements of operations are translated using the average exchange rate in the relevant period. Balance sheet items, other than equity, are translated using the exchange rates as of the balance sheet date. Equity accounts are translated at historic rates. Effects of the foreign currency translation are included as a component of shareholders' equity.

Accounting for acquisitions

The Company accounts for its acquisitions by the purchase method. Under the purchase method, the acquiring corporation records the net assets acquired at the fair market value of the consideration given. Any excess of the purchase price over the fair market value of the net identifiable assets is recorded as goodwill. Such goodwill will be tested at least annually for impairment.

Revenue recognition

Revenues are comprised primarily of the value of software packages, upgrades and enhancements, excluding sales taxes and trade discounts. The Company's software licenses generally provide for an upfront license fee and do not include post-contract support.

The Group accounts for software license and maintenance revenues in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP 97-2). "Software Revenue Recognition" and SOP 98-9 "Modification to SOP 97-2 With Respect to Certain Transactions".

Accordingly, revenue from software license sales, upgrades and enhancements are recognized when a persuasive evidence of an arrangement exists, delivery has been made, a fixed fee and collectibility of the fee has been determined; to the extent that obligations exist for other services, the Company allocates revenue among license, upgrade or enhancement and the services based upon their relative fair value. Revenue from customer maintenance support agreements is deferred and recognized ratably over the term of the agreements.

In instances where significant customizations are required, the Group applies contract accounting using the percentage of completion method to recognize revenues in accordance with the provisions of SOP 97-2.

Accounting for goodwill and other intangible assets

In June 2001, the FASB approved FASB Statement No. 142, Goodwill and Other Intangible Assets, significantly changing the method of accounting for intangible assets. "FAS No. 142" does not presume that those assets are wasting assets. Instead, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment.

Graphisoft adopted these provisions as of January 1, 2002. "FAS No. 142" was applied to all goodwill and other intangible assets recognized in its financial statements at that date. The transitional intangible asset impairment test is completed in the first interim period in which "FAS No. 142" is initially applied, and any resulting impairment loss is recognized as the effect of a change in accounting principle, between the captions extraordinary items and net income.

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Other items

Users may refer to the Annual Report for the year ended December 31, 2001.